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SUBJECT: GERMANY'S BROADBAND DEPLOYMENT INITIATIVE

REF: STATE 27310

11. Summary: This report is in response to reftel and overviews the German government's broadband initiative, a component of Germany's economic stimulus package. The broadband strategy, approved by the Cabinet in February 2009, seeks to accelerate telecommunication and internet connectivity, close gaps in underserved areas by the end of 2010 and ensure nationwide access to high speed internet by 2014. The federal regulatory authority BNetzA has prepared a "digital dividend" frequency auction schedule to support the initiative, but legislation is now stalled in the Upper House over concerns related to both the digital dividend and frequency transfer costs. The Upper House decision is expected in mid-June 2009, subsequent to the government's clarification of these pending issues. End Summary.

Broadband Penetration Goals in Stimulus Package

12. Recognizing the growth potential inherent in high speed broadband, the government included the goal of nationwide telecom and internet broadband connectivity as an integral component of its stimulus package. The multi-pronged approach approved by the Cabinet on February 18, 2009, aims to close gaps in underserved areas, upgrade existing broadband infrastructure over the short-term by deploying the entire range of feasible technologies - whether cable, fiber optics, satellite, or wireless - and utilize the digital dividend resulting from frequencies no longer needed for broadcasting following digitalization.

13. This so-called "Broadband Strategy" seeks to provide 75 percent of German households with transmission rates of a minimum of 50 megabits per second by 2014 and sets a 100 percent penetration target as soon as possible beyond that date. (Note: By the end of 2008, 58 percent or 23 million of the 40 million German households enjoyed fast internet access.) The government's plan focuses, in particular, on closing gaps in underserved areas by 2010, benefiting 800 communities with five million inhabitants. The German communities' association (Deutscher Staedte- und Gemeindebund) strongly supports the strategy, noting that it would create 250,000 jobs in rural areas and foster new businesses and revenues. The strategy also envisions federally-funded construction programs to support network expansion and the reallocation of frequencies no longer needed for radio and television broadcast - the so-called digital dividend - to rural areas.

Digital Dividend

14. In recognition of the digital dividend, the government has recommended applying frequencies between 790 and 862 megahertz for high speed internet service. While the telecom industry welcomes such a step, radio and television broadcasters had been reluctant to give these frequencies up, claiming them for their own programming. The dispute continued until the government stepped in to allocate the frequencies to the broadband stimulus package. German states, however, are responsible for approving the allocation of radio frequencies and therefore must approve this measure. State concerns have stalled the legislative process, with the Upper House postponing a decision on the bill until the federal government provides additional clarification on digital dividend issues.

Price Declines/Lower Revenues for Infrastructure

15. Strong competition among carriers has led to lower prices in urban areas, which means less in revenues for carriers to respond to the growing need for additional investments in infrastructure. (Note: Of the estimated 300 billion euros needed for EU-wide infrastructure investment, Germany needs 50 billion.) The increasing financial pressures on carriers have led former competitors to seek alliances and cooperation to stem the high costs.

Current Broadband Deployment Status

16. According to official figures, German broadband penetration rates compare favorably with leading countries. About 60 percent of households have high speed broadband access to the internet. Factoring in households linked by 384 kbit/s "mini dsl" connections, 98 percent of households have broadband access. Based on the currently accepted definition of at least one megabit per second (Mbit/s), broadband penetration amounts to 92 percent. Over 79 percent of households have access to transmission rates of at least 2 Mbit/s and 20 percent enjoy high speed internet access via VDSL connections with up to 50 Mbit/s. While these values are well ahead of comparable European figures, critics stress that penetration looks less favorable when omitting the 384 kbit/s connections from computation. While urban areas are well-equipped with broadband, the "gaps" are often located just beyond city limits and stretch into rural areas and remote corners. Note: Carriers have concentrated their investment and advertising on lucrative urban areas with high populations, bypassing underserved areas with few potential customers.

EU Commission Urges Germany

17. The European Commission has repeatedly urged Germany to step up efforts on telecom reform. In March 2009, Commissioner Reding requested that Germany close existing infrastructure gaps, noting that only 27.5 percent of Germans subscribed to broadband service, putting Germany in 9th place among EU member states, and that 12.5 percent of Germans in rural areas had no technical access to broadband internet. Reding urged the use of the digital dividend and noted that Germany, by neglecting to speed up infrastructure improvement, was shirking its role as the growth engine for Europe; more efforts were expected. To address the funding problem, the EU Commission, will develop guidelines for financial assistance to EU member states.

18. A considerable gap remains between regions in the western and eastern part of Germany. While sixty of every hundred households in western states had high speed internet access, less than 45 households in the eastern states had such access. To help close the gap, the EU has been providing funding for infrastructure to the new Germany's eastern states.

Government Efforts

19. The focus in the current broadband strategy on infrastructure investment and broadband deployment is the culmination of an extended process starting with the EU Lisbon Accord. This focus was continued under former Chancellor Schroeder who integrated IT leadership into Germany's "Agenda 2010" for economic growth. Chancellor Merkel has also sought to boost Germany's IT standing through private sector engagement, hosting two "IT summits" for industry in the past two years. The Chancellor opened the 2009 CeBIT fair in March 2009, stating her goal of nationwide broadband access by 2010 - the basis of the current broadband strategy bill.

Strategy Measures

110. In order to reach its goals, the government proposes 15 measures for implementation during the three months following adoption of the package (currently on hold by the Upper House). Apart from encouraging carrier cooperation/cost-sharing and pooling of existing public and private infrastructure, the government proposed an

incentive-oriented approach for infrastructure construction, sought supportive frequency policies, and committed to growth and innovation-oriented regulation as well as appropriate financial support. Planned measures also include collaboration among urban developers, carriers and construction firms on installing ducting and joint infrastructure as well as cutting costs by compiling a construction site data base to accelerate integration of infrastructure hardware and cables during ground excavation. Short-term measures for nationwide coverage include financial support to local authorities and financing options for companies.

Comment

¶11. While the government aimed for a quick-start, getting the process off the ground has been complicated. Slower than expected approval of the broadband strategy by the Upper House is resulting in funding delays. Furthermore, since state-level Finance Ministers are bound by their 2009 budget, which are based on 2008 budgetary decisions, they can't commit additional funds prior to drafting 2010 budget plans. It remains to be seen whether the government's ambitious plans will be effectively implemented. Embassy Berlin will continue to monitor developments and provide periodic updates.
End Comment.

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